

**NOTE 9 – POSTEMPLOYMENT HEALTHCARE PLAN**

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45), which requires other postemployment benefits (OPEB) expenses to be accrued based on a computed *Annual Required Contribution* (ARC) which includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB 45, has recorded a liability of \$6.65 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB 45. This liability is included in other noncurrent liabilities in the accompanying December 31, 2007 statement of net assets.

The effect of GASB 45 for the current fiscal year was to reduce the County's excess of revenue over expenses before capital contributions as well as the County's net assets for the year ended December 31, 2007 by approximately \$6.65 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy The LEOFF 1 medical benefit requirements are established by RCW 41.26.150(1) with local disability boards administering the LEOFF 1 medical service expenses. LEOFF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan as set by the Human Resources Director.

For the year ended December 31, 2007, the County contributed an estimated \$5.147 million to the Health Plan. The County's contribution was to fund "pay-as-you-go" costs under the Health Plan and not to pre-fund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, will cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following displays the components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2007 (in thousands):

Normal cost — Unit Credit Method	\$ 3,806
Amortization of unfunded actuarial accrued liability (UAAL)	-
Amortization of unfunded actuarial accrued liability (UAAL) at transition	<u>7,989</u>
Annual Required Contribution (ARC)	11,795
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	11,795
Contributions made	<u>(5,147)</u>
Increase in net OPEB obligation	6,648
Net OPEB obligation — beginning of year	-
Net OPEB obligation — end of year	<u>\$ 6,648</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follows (in thousands):

**NOTE 9 - CONTINUED**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2007	\$11,795	43.6%	\$6,648

Funded Status and Funding Progress The funded status of the Health Plan as of December 31, 2007 (in thousands),

Actuarial accrued liability (AAL) — Unit Credit	\$141,893
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$141,893
Funded ratio (actuarial value of plan assets ÷ AAL)	0.0%
Covered payroll	\$854,800
UAAL as a percentage of covered payroll	16.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projection of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan). It includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2007 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 11.0 percent for KingCare medical, 8.5 percent for KingCare Rx, and 11.0 percent for HMO medical/Rx, each reduced by decrements to an ultimate rate of 5.0 percent after 12 years. The vision trend rate is 1.0 percent, the miscellaneous trend rate is 7.0 percent, and the Medicare Premium trend rate is 8.5 percent, for all years. All trend rates include a 3.0 percent inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on a closed basis. The remaining amortization period at December 31, 2007 was 29.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

**REQUIRED SUPPLEMENTARY INFORMATION****Schedule of Funding Progress for the Plan**

(in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) — Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a ÷ b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) ÷ c)</u>
12/31/2007	\$ -	\$ 141,893	\$ 141,893	0.0%	\$ 854,800	16.6%